

Message Text

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ACTION EUR-12

INFO OCT-01 EA-06 ISO-00 CIAE-00 DODE-00 PM-03 H-01 INR-05

L-01 NSAE-00 NSC-05 PA-01 RSC-01 PRS-01 SP-02 SS-20

USIA-06 AID-05 COME-00 EB-04 FRB-01 TRSE-00 XMB-02

OPIC-06 CIEP-01 LAB-01 SIL-01 OMB-01 STR-01 CEA-01

AGR-05 DRC-01 /095 W

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R 111850Z OCT 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC 5612

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

UNCLAS SECTION 01 OF 02 BONN 16153

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: GERMAN PRESS REACTION TO PRESIDENT FORD'S
ECONOMIC PROGRAM.

1. SUMMARY. THE GERMAN PRESS, WHILE MIXED IN ITS REACTION, WAS ON BALANCE LESS THAN ENTHUSIASTIC IN ITS APPRAISAL OF PRESIDENT FORD'S ECONOMIC PROGRAM AS AN ATTACK ON E INFLATION. THE FACT THAT FEW WILL BE HURT BY THE PROGRAM, IN THE U.S. OR EUROPE, WAS GENERALLY NOTED. WHILE NO EXPORT CONTROLS WERE IMPOSED, THE WORRY WAS EXPRESSED THAT THESE WILL EVENTUALLY BE FORTHCOMING.
END SUMMARY.

2. THE NATIONALLY CIRCULATED CONSERVATIVE BUSINESS DAILY, HANDELSBLATT, CONTAINED SOME OF THE MORE POSITIVE
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COMMENTS NOTED. THEY DESCRIBED THE PROGRAM AS AN

IMPRESSIVE UNDERTAKING AIMED AT CHECKING INFLATION AS WELL AS RECESSION. THEIR FURTHER COMMENTS WERE:

A. THE PROGRAM IS A COMPROMISE, WHICH WILL NOT HURT TOO MANY PEOPLE AND IMPORTANT ASPECTS OF WHICH (THE ENERGY PROGRAM) ARE OF A VOLUNTARY NATURE. REACTIONS ARE MIXED AND MARKED BY UNCERTAINTIES. DESPITE THE INCOME TAX SURCHARGE, MANAGEMENT AND MOST ECONOMISTS WELCOME THE MEASURES, PRIMARILY BECAUSE THEY TEND TO COUNTERACT RECESSIONARY TENDENCIES, AT LEAST IN CERTAIN FIELDS.

B. MOST INTERESTING TO GERMAN EXPORTERS WILL BE THE IMPACT ON THE UNDERLYING BUSINESS CLIMATE IN THE USA, SINCE THIS IS DECISIVE FOR THE DEVELOPMENT OF GERMAN EXPORTS. THE INVESTMENT INCENTIVES WILL HAVE TO BE WATCHED WITH GREAT ATTENTION OVER HERE.

C. ECONOMIC ADVISOR EBERLE WILL NOT FIND HIS TASK EASY WITH THE AGRICULTURAL POLITICIANS IN BRUSSELS. NEW KINDS OF EXPORT CONTROLS FOR US GRAIN CAUSE NEW UNREST AMONG WASHINGTON'S TRADING PARTNERS. PRICES -- CURRENTLY NOT AT THE LOWEST LEVEL ANYWAY -- ARE LIKELY TO INCREASE FURTHER. A REDUCTION OF SOYBEAN EXPORTS ONLY 12 MONTHS AFTER LAST YEAR'S TOTAL EXPORT STOP MEANS A NEW HEAVY BLOW TO THE EUROPEAN LIVESTOCK INDUSTRY. SO FAR, THERE ARE NO ACTUAL EXPORT CONTROLS IN THE MEASURES. HOWEVER, THE STEP TOWARD REGULATING EXPORTS HAS BECOME VISIBLE ON THE HORIZON.

3. ON THE OTHER HAND, ONE OF THE MOST SHARPLY CRITICAL WAS THE RIGHT-CENTER DIE WELT. THIS CONSERVATIVE ORGAN OBSERVED THAT PRESIDENT FORD'S PROGRAM CONTAINS EFFECTIVE MEASURES AGAINST RECESSION BUT AT THE EXPENSE OF THE FIGHT AGAINST INFLATION. THE MAIN POINTS OF THIS NATIONALLY-READ DAILY FOLLOW:

A. DEMAND SYPHONED OFF ONE PLACE FLOWS BACK INTO THE ECONOMY THROUGH OTHER CHANNELS ELSEWHERE. THE INCREASE OF THE CORPORATE INCOME TAX MAKES LITTLE SENSE IF

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PRODUCTION IS TO BE INCREASED THROUGH INTENSIFIED INVESTMENTS. WHETHER OR NOT IMPROVED TAX INCENTIVES FOR INVESTMENTS WILL BE AN OFFSETTING FACTOR REMAINS TO BE SEEN.

B. THE PERSONAL INCOME TAX SURCHARGE WILL HAVE TO BE PAID BY ONLY 28 PERCENT OF THE AMERICAN TAXPAYERS AND IT IS UNDOUBTEDLY TOO SMALL TO EXERT AN EFFECTIVE ANTI-INFLATIONARY IMPACT. MOREOVER, GIVEN SHARP OBJECTIONS BY LEADING DEMOCRATS, IT CANNOT BE RULED OUT THAT THE SURCHARGE WILL BE REJECTED BY CONGRESS. MEANWHILE THE FRB IS TO EASE FURTHER ITS MONETARY POLICY IN AN EFFORT TO REDUCE HIGH INTEREST LEVELS. THE NEW INFLATIONARY DANGERS ARE OBVIOUS, ESPECIALLY SINCE THE FEDERAL BUDGET CONTINUES TO SHOW A DEFICIT AND CONSIDERABLE AMOUNTS WILL BE SPENT FOR HOUSING CONSTRUCTION AND PROGRAMS TO INCREASE EMPLOYMENT.

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C. RECOMMENDATIONS FOR DISCONTINUATION OF IMPORT QUOTAS FOR STEEL, TEXTILES AND SHOES WERE NOT ACCEPTED BY THE PRESIDENT. THE PRESSURE OF INTEREST GROUPS WAS OBVIOUSLY TOO STRONG. IN THE ENERGY FIELD, THERE IS NOTHING NEW. THE LAWS REGARDING ECONOMY MEASURES, DEVELOPMENT OF NEW RESOURCES, AND RELAXATION OF STRICT CLEAN-AIR RULES WERE ALREADY INTRODUCED INTO CONGRESS BY FORD'S PREDECESSOR, WHERE THEY ARE STILL SIMMERING.

4. THE REGIONAL INDEPENDENT STUTTGARTER ZEITUNG NOTED THAT EUROPEANS SHOULD BE RELIEVED THAT THE PRESIDENT'S

PROGRAM SIGNIFIED NO ADDITIONAL BURDENS FOR THEM.

5. THE PRO-CSU MUENCHENER MERKUR SAW THE PROGRAM AS A PACKAGE OF ISOLATED MEASURES AIMED IN ALL DIRECTIONS, THE IMPACT OF WHICH MUST BE DOUBTED -- WITH RESPECT TO THE EFFECTIVENESS AS WELL AS TO SPEED. OF PARTICULAR IMPORTANCE IS THE 5 PERCENT INCOME TAX SURCHARGE, WHICH HAS ALREADY MET WITH SHARP CRITICISM. GIVEN THE PENDING ELECTIONS, CONGRESS CAN HARDLY BE EXPECTED TO APPLAUDE TO PROPOSALS FOR TAX INCREASES. IT IS CERTAIN THAT THE PRESIDENT DID NOT SUCCEED WITH HIS PROPOSALS TO DEAL A DECISIVE BLOW TO INFLATION.
HILLENBRAND

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